

# **Camdeboo Municipality**

## **Audit Report**

For the year ended 30 June 2015

# Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on Camdeboo Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Camdeboo Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management, 2003 (Act No. 56 of 2003), and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified audit opinion.

## Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Camdeboo Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

## Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Unauthorised expenditure

8. As disclosed in note 38.1 to the financial statements, unauthorised expenditure amounting to R14, 3 million was incurred by the municipality during the year ended 30 June 2015.

### Material losses

9. As disclosed in note 34 to the financial statements, the municipality suffered significant losses for water and electricity. Electricity losses to the value of R2, 9 million were incurred. Water losses to the value of R9,7 million were incurred in both current and previous financial year.

### Restatement of corresponding figures

10. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 30 June 2015 in the financial statements of the Camdeboo Municipality at, and for the year ended, 30 June 2015.

## Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Unaudited disclosure notes

12. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## Report on other legal and regulatory requirements

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected programme presented in the annual performance report, non-compliance with legislation and internal control. The objective of my tests was to

identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected programme presented in the annual performance report of the municipality for the year ended 30 June 2015:
  - Programme 1: Infrastructure Development on pages x to x
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the selected Infrastructure Development are as follows:

### **Infrastructure Development**

Usefulness of reported performance information

Measurability of targets

19. Performance targets should be measurable as required by the FMPPI. We could not measure the required performance for 37% of significantly important targets in relation to the mandate of the municipality as there were no measurable targets in the context of service delivery were set for these key performance indicators.
20. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total of 41% of the significantly important targets in relation to the mandate of the municipality were not specific.

## Performance targets not time-bound

21. The period or deadline for delivery of targets should be specified as required by the FMPPI. A total of 22% of the significantly important targets in relation to the mandate of the municipality were not time-bound.

## Indicators not well defined

22. Performance indicators should be well-defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 41% of the significantly important indicators in relation to the mandate of the municipality were not well-defined.

## Indicators not verifiable

23. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 41% of significantly important indicators in relation to the mandate of the municipality were not verifiable. This was because management was not trained in the requirements of the FMPPI.

## Reliability of reported performance information

24. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for significantly important targets to assess the reliability of the reported performance information. This is due to the fact that proper indicator definitions were not used to predetermine the evidence and method of calculation for actual achievements.

## Additional matters

25. I draw attention to the following matters. Our conclusion is not modified in respect of these matters:

### Achievement of planned targets

26. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs 18 to 24 of this report

### Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of Infrastructure Development As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness and reliability of the reported performance information.



## Unaudited supplementary information

28. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion thereon.

## Compliance with legislation

29. I performed procedures to obtain evidence that had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## Strategic planning and performance management

30. Measurable performance targets for the financial year with regard to each of the development priorities and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the MSA and the municipal planning and performance management regulation 12(1) and 12(2)(e).
31. The performance management system and related controls were not adequate as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting and improvement as well as how it was to be conducted, organised and managed, as required by section 38 of the MSA and municipal planning and performance management regulation 7.

## Financial statements, performance and annual reports

32. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements on the disclosure item identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

## Procurement and contract management

33. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2) (b) of the MFMA.
34. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2) (c) of the MFMA.
35. Contracts were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

## Expenditure management

36. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1) (d) the Municipal Finance Management Act.

## Internal control

37. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the unqualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

## Leadership

38. The municipality did not have systems or controls in place to prevent the unauthorised expenditure from being incurred.
39. The Accounting Officer did not ensure an adequate control environment to prevent and detect non-compliance with applicable laws and regulations and did not provide an adequate appropriate portfolio of evidence for reported performance against predetermined objectives. The position for the senior manager corporate services was vacant for the whole financial period.

## Financial and performance management

40. The municipality did not have a proper filing system, proper record management systems and an approved record classification system to maintain information that supported reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information.

AUDITOR - GENERAL S. A

East London

30 November 2015



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